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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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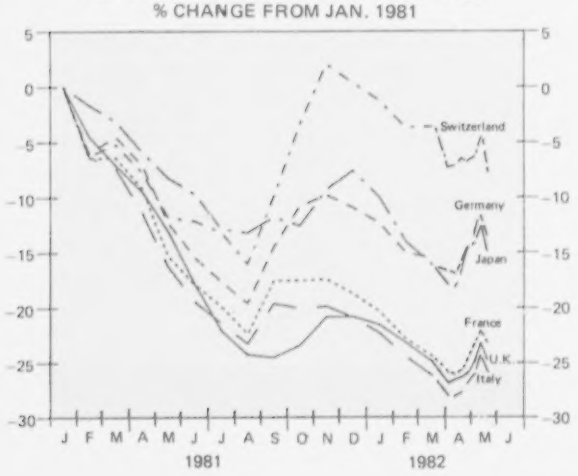
On The Summit Conference Agenda . . .

The forthcoming economic summit conference at Versailles, France, in early June will be an opportunity for the participants to come to grips with a number of urgent economic issues. Among the items of particular interest to the industrial countries on a crowded agenda are the global economic slump and impediments to international investment and trade. On these matters there is a wide diversity of viewpoints and emphasis. The European participants at the conference have indicated that they want to talk about the deleterious global effects of high interest rates, particularly in the United States, as well as the U.S. policy of non-intervention in stabilizing volatile foreign exchange rates.

VALUE IN U.S. DOLLARS OF CURRENCIES:
% CHANGE FROM JAN. 1981



The United States government, under pressure from particular interest groups, is concerned about various aspects of international trade. These include subsidization of exports, non-tariff trade barriers, bilateral trade imbalances and the financing of export trade. The Japanese government, which is particularly sensitive about its trade surpluses with the U.S. and Europe, has publicly expressed concern that Japan may be criticized by both the U.S. and the Europeans on trade issues. Thus, the participants come to the conference table with a complex and wide-ranging series of problems.

. . . Are Interest Rates . . .

One problem which cuts across most of the others is high U.S. interest rates. These are widely viewed abroad as being the principal cause of high interest rates in all financial markets. Because the U.S. economy and consequently the U.S. dollar both loom so large in the global economic scene, interest rates in the United States do exert a profound influence on international financial markets.

But, the prospects for a sustained and substantial fall in U.S. interest rates are not very great. For one thing, there is still the question of the budget deficit which has yet to be resolved. And even in the unlikely event that the President and the Congress arrive at a compromise budget, there is still no guarantee that the proposed reductions in the deficit would be enough to convince the financial markets that the budget process has come under control, thus enabling interest rates to descend. The facile alternative of lowering interest rates by increasing the money supply is unlikely, since both the present Administration and the Federal Reserve have stoutly opposed such a policy. It would appear, therefore, that high U.S. interest rates are a factor with which the international financial markets will have to deal for some time to come.

Nonetheless, it would be incorrect to view lofty U.S. interest rates as the only cause of high interest rates elsewhere. Most of the major industrial nations have generated large budget deficits in recent years, resulting in hefty levels of government borrowing on domestic and international markets in competition, not only with each other, but with the private sector as well. The growing financial needs of the less developed countries have added to the pressure on the existing global stock of credit, too.

. . . Exchange Rates . . .

Volatile and unstable foreign exchange rates are also a source of friction. In the eyes of many people abroad, their currency's exchange rates are not only a matter of national prestige, but also an indicator of economic health. The present system of floating exchange rates has placed heavy burdens on national economic policies in an era of growing international

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economic interdependence, when government control over economic policies seems to be eroding. Thus, the recently enunciated Reagan Administration policy of non-intervention in the foreign exchange markets is seen by some as a step back from international economic cooperation.

Under the Bretton Woods system of fixed exchange rates, central banks cooperated in stabilizing exchange rates through well-timed and usually coordinated purchases or sales of currencies to sustain the currency parities. Even under the floating rate system, intervention by a single central bank or a group of central banks (as in the case of the European Monetary System) is common in order to either defend a particular rate or at least to calm disorderly markets. Thus, a publicly stated policy of non-intervention by such a large market participant as the U.S. may be viewed by some as a contributor to instability. This is particularly true at a time when the dollar is showing strength against the other major currencies. As the chart indicates the dollar has strengthened over much of the past year—in some cases to the point where it is now overvalued. As a result, some foreign central banks are experiencing difficulty in preventing massive capital outflows and a further deterioration in exchange rates.

. . . And Trade

The sorry state of world trade must certainly concern all of the summit participants. Last year the value of world trade was actually one per cent below the 1980 level—the first such decline since 1958. In an environment of low economic

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/19/82		
U.S. Gov'ts and Agencies Owned Outright & RPs	138.824	+ 1.153	+ 8.517
Loans to Depository Inst.	.963	− .157	− .991
Float	1.723	− .425	− 1.337
Total Reserve Bank Credit	150.737	+ .017	+ 5.564
Treasury Deposits with Federal Reserve Banks	3.122	− 1.572	.003
Currency Outside Banks	130.019	+ 1.181	965
Member Bank Reserves:			
Required	39.289	+ .382	− 1.075
Excess (Deficiency)	.389	+ .109	+ .236
Total Reserves Held	39.678	+ .491	− .839
Net Borrowed Reserves	.342	− .280	− 1.188
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.892	+ 1.363	− 8.170

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	451.5	+ 2.8‡	+ 4.6‡
M2 (April '82)	1,879.5	+ 8.4	+ 9.1
M3 (April '82)	2,256.3	+ 9.5	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 5/28/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.50%	11.65%	11.65%
* Federal Agencies	12.80	12.65	13.10
* Project Notes—Taxfree (46% Taxable Equivalent)	13.61	13.80	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.40	13.65	13.70

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.88%	Jun.	13.15%
15- 29 days	12.88	Jul.	13.00
30- 59 days	12.88	Aug.	12.90
60- 89 days	12.50	Sep.	12.85
90-179 days	12.00	Oct.	12.85
180-239 days	11.88	Nov.	12.65
240-270 days	11.88		

‡Industrial Paper—Prime			
30- 89 days	13.13%	†Federal Funds	
90-120 days	13.00	Effective Rate	13.35%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 4.3	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	− 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	− 1.2%	10.8%
Civilian Employment (Thousands of Persons)†	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force†	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Apr '82n	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Apr '82n	−$ 0.32	−$ 2.64	−$ 3.48
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales†	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

growth or recession, the weakness of international trade further encourages pressures on governments to restrict imports through a variety of protectionist measures and to encourage exports, often through subsidization of threatened industries or with export credit.

Although most governments have successfully resisted such pressures, trade frictions are increasing —particularly accusations of unfair subsidization and dumping. Proposals for protectionist legislation are also increasingly common. The number of trade disputes brought before the GATT (General Agreement on Tariffs and Trade) arbitration panel in 1981 reached a record level.

The United States is particularly sensitive to its trade position. Exports have been declining slowly but steadily since the first quarter of 1981 while imports have remained strong because of the strength of the dollar on the foreign exchange markets. The fall in exports has added to the depth of the U.S. recession. Between the first and last quarters of 1981 real net exports of goods and services fell from about $51 billion to just over $39 billion (seasonally adjusted, at annual rates)—equal to two-thirds of the $18 billion drop in real GNP for the same period.

Besides the overvalued dollar, U.S. exports have suffered from the global recessionary environment and the high cost of credit. A substantial portion of U.S. exports is in the form of high-value capital goods which are particularly sensitive to those

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/12/82)	133,617	+ 1,121	+17,030
New York City (5/12/82)	34,466	+ 972	+ 5,558
Commercial Paper (5/12/82)	175,716	+ 1,263	+36,115

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (5/12/82)	207,398	– 444	+31,358
New York City (5/12/82)	58,590	– 367	+ 7,205
	Total Loans Gross Adjusted		
Nationwide (5/12/82)	481,723	– 1,746	+47,954
New York City (5/12/82)	112,654	– 623	+ 9,838

Financial Markets

	Friday 5/28/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.05%	+ .25	– 2.94
180-Day Bills†	12.55	+ .07	– 1.45
Longest Bills†	12.95	+ .04	– .20
Recent Issues:			
13 3/4s 5/31/84 (When Issued)	13.55	+ .13	
14s 3/31/86	13.70	+ .08	
13 3/4s 5/15/92	13.65	+ .25	
14s 11/15/11	13.34	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (5/27/82)	11.99%	+ .03	+ 1.35
Blue List Total ($ Million)	$1,184	– $626	+ $340
30-Day Visible Supply ($ Million)	$1,744	+ $ 84	– $ 72
Total	$2,928	– $542	+ $268
Corporates:			
Moody's Aa Composite (5/27/82)	14.76%	– .03	– .20
30-Day Visible Supply ($ Million) ‡	$1,840	– $358	NA
Stocks:			
Dow-Jones Averages:			
Industrials	819.54	– 16.36	– 172.21
Transportation	320.14	– 13.42	– 115.65
Utilities	111.09	– 2.69	+ 3.42
65 Stocks	319.70	– 8.66	– 67.44
Standard and Poor's 500 Stocks	111.88	– 3.01	– 21.01
N.Y.S.E. Composite Index	64.54	– 1.72	– 12.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,542	– 2,926	– 8,671

* 46% Taxable equivalent 22.20%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

	Friday 5/28/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.00%	13.63%
1 month	14.25	14.50
3 month	14.31	14.31
6 month	14.38	14.31
1 year	14.38	14.31
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.45%	14.50%
Long Term (7 to 15 yrs.)	14.60	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/28/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02258	44.29
Canada	.8047	1.2427
Denmark	.1259	7.9435
France	.1637	6.1100
Germany	.4264	2.3450
Italy	.0007689	1300.60
Japan	.004112	243.20
Mexico	.02123	47.10
Netherlands	.3855	2.5940
Switzerland	.5011	1.9958
U.K.	1.7915	.5582

factors. Further, imports, in spite of a seasonally adjusted 14.5 per cent fall in April, are expected to stay well in excess of exports. In fact, most of April's sharp decline in imports was due to decreased oil imports, which will increase, now that the oil companies' inventories are drawn down. During a period of recession and high unemployment in the U.S., imports—particularly of such products as steel and automobiles—are a very sensitive issue. The problem for the United States is exacerbated because of the very large trade deficit (about $15 billion in 1981) with Japan.

It is apparent that the discussions at the Versailles Summit Conference will reflect basic differences in national policies and priorities which are not likely to be resolved in that forum. Indeed, the conference is likely to generate more heat than light. The fundamental problem continues to be the inability of nations with widely different social, political and economic characteristics to coordinate their economic p[illegible]icies.

The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York
From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27
Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR— including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County
Sports House and Grounds: $60 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

SEE YOU THERE!

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